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C O N F I D E N T I A L SECTION 1 OF 3 USNATO 0377

E.O. 11652: GDS
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SUBJ: MEETING OF CENTRAL EUROPE PIPELINE POLICY COMMITTEE (CEPPC)
IN BRUSSELS, 20-21 JANUARY 1977

REF: 76 USNATO 6797 (DTG 101727Z DEC 76)

SUMMARY: AT MEETING ON 20-21 JANUARY 1977, THE CEPPC APPROVED THE US/CENTRAL EUROPE OPERATING AGENCY (CEOA) AGREEMENT CONCERNING USE OF L'ESPIGUETTE DEPOT, AND MADE PROGRESS ON SENSITIVE DISCUSSIONS CONCERNING PERSONNEL MATTERS. IN ADDITION, A PRELIMINARY DISCUSSION WAS HELD CONCERNING THE OUTSTANDING FINANCIAL PROBLEMS WHICH ARE TO BE REFERRED TO THE CENTRAL EUROPE PIPELINE SYSTEM (CEPS) PERMREPS, PERHAPS AS EARLY AS APRIL 1977. END SUMMARY.

ITEMS OF PRINCIPAL INTEREST ARE REPORTED BELOW AND ARE KEYED TO AGENDA ITEMS.

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II. 1977 BUDGET OF CEOA AND DIVISIONS. COMMITTEE RECEIVED RECAPITULATIONS OF THE FINAL BUDGET FIGURES FOR 1977 INDICATING EXPENDITURES OF SOME 215 MILLION FRENCH FRANCS (FRFR) AND REVENUES OF SOME 148 MILLION FRFR, FOR A POTENTIAL DEFICIT OF 67 MILLION FRFR, OF WHICH ABOUT QP MILLION FRFR REPRESENTS PREFINANCING OF INFRASTRUCTURE PROJECTS FOR WHICH RECOUPMENT IS EXPECTED. THUS, THE OPERATING DEFICIT FOR 1977 WOULD BE APPROXIMATELY 57 MILLION FRFR, AT CURRENT MILITARY TARIFF RATES. AS EXPLAINED BELOW, HOWEVER, MILITARY TARIFFS ARE EXPECTED TO RISE IN TERMS OF FRENCH FRANCS AND THUS CUT AN ADDITIONAL

4 MILLION FRFR FROM THE DEFICIT. BUDGET REMAINS UNDER FRG RESERVATION BECAUSE OF TAX QUESTION, AND FINANCING IS BEING ACCOMPLISHED UNDER CONTINUING RESOLUTION.

III. MILITARY TARIFFS-EXCHANGE RATE FLUCTUATIONS. IN CONSIDERING PROPOSAL IN AC/120-D/981, THE CEPPC CONFIRMED ITS DECISION TO FIX THE RATE OF THE CEPS UNIT AT 1.3 FRFR AS OF 1 JANUARY 1977, AND CAME CLOSE TO AN AGREEMENT ON AUTOMATIC ADJUSTMENT OF TARIFFS IN TERMS OF FRFR TO TAKE ACCOUNT OF CURRENCY FLUCTUATIONS BETWEEN THE VARIOUS HOST NATIONS. IF FRENCH CAN CONFIRM THE PROPOSAL, THE FRFR EQUIVALENT OF THE CEPS UNIT WOULD BE ESTABLISHED ON THE BASIS OF NATO RATES OF CONVERSION IN THE THIRD WEEK OF EACH MONTH AND APPLICABLE TO TARIFFS STARTING IN THE FOLLOWING MONTH. THIS PROCEDURE GUARANTEES THE REAL VALUE OF THE CEPS UNIT AND ONLY INCREASES COSTS IN NATIONAL CURRENCIES FOR COUNTRIES WHOSE OWN CURRENCIES ARE DEPRECIATING. COMMENT: AS WE SEE THIS POSSIBLE AGREEMENT, IT REPRESENTS A REAL CONCESSION BY FRANCE, WHICH HAS NEVER BEFORE AGREED TO INCREASE ITS OWN TARIFFS IN TERMS OF REAL VALUE AT THE TIME OF A FRENCH DEVALUATION. WE BELIEVE THAT IT IS A HEALTHY DEVELOPMENT AND WILL CAREFULLY HUSBAND IT TOWARD FRUITION. END COMMENT.

IV. USE OF DEPOT AND SEALINE L'ESPIGUETTE BY THE UNITED STATES. COMMITTEE APPROVED THE TECHNICAL AGREEMENT WHICH HAD BEEN NEGOTIATED BY EUCOM WITH CEOA AND THE FRENCH AUTHORITIES. CONFIDENTIAL

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CEOA STATED THAT THE DEPOT WOULD BE READY ABOUT 1 MARCH 1977, AND THE US CENTRAL EUROPE PIPELINE OFFICE (CEPO) REP (LAVAS) AGREED TO ATTEMPT TO ARRANGE FIRST VISIT BY US TANKER DURING THE MONTH OF MARCH.

V. NON-NATO MOVEMENTS LAVERA-STRASBOURG EXTENSION OF AGREEMENTS FOR 1977. CEOA RECOMMENDED EXTENSION OF THE AGREEMENT DURING 1977 TEMPORARILY AT THE SAME TARIFFS WHICH APPLIED TO THE 1976 AGREEMENT. FRENCH REP (GENTILHOMME) EXPLAINED THAT THE CURRENT FRENCH GOVERNMENT POLICY (LE PLAN BARRE) WOULD NOT ALLOW THE INCREASE IN TARIFFS WHICH WOULD NORMALLY HAVE BEEN NEGOTIATED AT THIS TIME. HE HOPED, HOWEVER, THAT WITHIN 3-4 MONTHS HE COULD PROPOSE A NEW TARIFF ARRANGEMENT, A PROCEDURE WHICH WAS NOT RULED OUT BY THE SIGNATURE OF THE EXTENSION OF THE CONTRACT.

VI. CEOA ESTABLISHMENT. THE GENERAL MANAGER OF CEOA (VERBOIS) ANNOUNCED THAT HE HAD INFORMED BAYLAC (FRENCH A-7 DIRECTOR OF OPERATIONS AT CEOA) THAT HIS CONTRACT WOULD NOT BE RENEWED AT ITS EXPIRATION ON 5 JULY 1977. VERBOIS COULD AGREE, HOWEVER, TO OFFERING BAYLAC A NEW ONE YEAR LIMITED CONTRACT AS SPECIAL ASSISTANT TO THE GENERAL MANAGER. THIS WOULD PROVIDE SUFFICIENT

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OPPORTUNITY FOR BAYLAC AND THE FRENCH AUTHORITIES TO FIND A NEW POSITION FOR BAYLAC AND WOULD ELIMINATE A MANAGEMENT CONCERN OF VERBOIS. IN THE MEANTIME, VERBOIS WOULD EXPECT TO RECRUIT A NEW, MORE QUALIFIED FRENCH ENGINEER TO TAKE OVER AFTER BAYLAC'S DEPARTURE FROM CEOA. FRENCH REP, WHO HAD PREVIOUSLY AGREED TO CONSIDER THIS SOLUTION, HAD SECOND THOUGHTS AND BELIEVED THAT THE NEW ONE YEAR CONTRACT SHOULD NOT AT THIS TIME RULE OUT A POSSIBLE ADDITIONAL EXTENSION. WE BELIEVE THAT WITH SUFFICIENT SWEETENING THE FRENCH AUTHORITIES WILL BE ABLE TO ACCEPT THE ELIMINATION OF BAYLAC IF ASSURED THAT THEIR CANDIDATE FOR REPLACEMENT WILL RECEIVE FULL AND FAVORED CONSIDERATION, AND THAT THIS SOLUTION OFFERS POTENTIAL FOR THE IMPROVEMENT OF CEOA MANAGEMENT WHICH WE HAVE BEEN SUPPORTING FOR SOME YEARS. SUBJECT WILL BE DISCUSSED AGAIN AT MEETING ON 5 MARCH.

VERBOIS ALSO ANNOUNCED HIS SELECTION OF MR. MARTIN FEINBERG FROM THE FOUR CANDIDATES FOR THE POST OF DIRECTOR OF FINANCE. MEMBERS OF THE COMMITTEE APPROVED THE SELECTION; THE UK REP (BILLING) RESERVED THE BRITISH POSITION, PRESUMABLY OUT OF PIQUE
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THAT THE TWO BRITISH CANDIDATES WERE NOT INTERVIEWED. THE UK REP SAID, HOWEVER, THAT HE BELIEVED THAT HE COULD JOIN THE CONSENSUS SHORTLY. THE FRENCH REP RESERVED HIS POSITION ON ALL PERSONNEL ACTIONS IN VIEW OF HIS DISSATISFACTION WITH THE OUTCOME OF THE BAYLAC POSITION, BUT IN PERSONAL CONVERSATION WITH US REP (LOVELAND), HE RECOGNIZED THAT THE US POSITION CONCERNING BAYLAC HAD BEEN HELPFUL AND AGREED TO TRY TO GET AN EXEMPTION FROM THE FRENCH POLICY FOR THE FEINBERG APPOINT.

VII.

A. UK REP ANNOUNCED DISPLEASURE OF HIS AUTHORITIES
AT PROCEDURE USED FOR INITIATION OF CALL FOR CONTRIBUTIONS
FOR THE REPLACEMENT OF THE ADN ENGINES IN BELGIUM AND NETHERLANDS,
AND THEIR BELIEF THAT PURSUAL OF THAT PROCEDURE WOULD DIS-
QUALIFY THE POSITION FROM POTENTIAL INFRASTRUCTURE REIMBURSE-
MENT. A SIMILAR ACTION WAS OCCURRING SIMULTANEOUSLY IN THE
INFRASTRUCTURE PAYMENTS AND PROGRESS COMMITTEE, WHEREIN THE
CEPPC PREFINANCING STATEMENT WAS NOTED WITH A REQUIREMENT FOR
AN ACCELERATED RE-BID IF CEPPC DESIRED TO RETAIN RECOUPMENT
POTENTION. IT WOULD APPEAR THAT THIS WILL BE ACCEPTABLE TO
EVERYONE (RATHER THAN THE VIRTUALLY CERTAIN UK DISPUTE AGAINST
DESQUALIFICATION OF THREE BRITISH BIDDERS), AND IT WOULD
THEREFORE APPEAR THAT US INDUSTRY WOULD AGAIN HAVE A CHANCE TO
BID ON THIS JOB IF THEY CAN MEET THE CEOA SPECIFICATIONS.

B. FRG(DOER) ANNOUNCED THAT THE JOINT MEETING OF
CEPPC/CEPO WOULD BE HELD IN GERMANY IN THE PERIOD 9-11 MAY 1977.

C. CEPS FINANCIAL PROBLEMS. THE CHAIRMAN (HOFMAN)
REFERRED TO AC/120-D/991, DISTRIBUTED ON 11 NOVEMBER 1976,
REPORTING ON THE CEPS FINANCIAL PROBLEMS, WHICH ARE EVENTUALLY
TO BE REFERRED TO CEPS DEPUTY PERMREPS FOR RESOLUTION AS A
"PACKAGE DEAL". HE ALSO PRESENTED HIS OWN SUGGESTION FOR
EVENTUAL RESOLUTION OF ALL OF THE INDIVIDUAL PROBLEMS. THIS
PROPOSAL IS QUOTED BELOW AND APPEARS TO HAVE THE VIRTUE OF
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DISTRIBUTING THE PAIN OF THE VARIOUS RESOLUTIONS AMONG ALL
CONTRIBUTING AND HOST NATIONS. IN THE CASE OF THE UNITED
STATES, THE POSSIBILITY OF AN INCREASE IN STORAGE TARIFFS
AND THE SUGGESTION THAT TRAPIL EXTRA PAYMENTS BE LEGALIZED
APPEARED TO BE THE ONLY SACRIFICES REQUIRED. WE BELIEVE,
HOWEVER, THAT IF THE OTHER NATIONS COULD AGREE TO THE PROPOSAL
AS PRESENTED THERE WOULD BE SUFFICIENT BENEFIT TO THE UNITED
STATES TO ALLOW US TO COMPROMISE ON THOSE TWO POINTS.
HOFMAN'S PAPER IS SUBJECT NOW TO NATIONAL COMMENTS AND
FINALIZATION BY LATE FEBRUARY FOR REDISCUSSION ON 5 MARCH.

BEGIN TEXT: DRAFT GENERAL COMPROMISE AGREEMENT.

1. THE EIGHT CEPS USER NATIONS UNDERTAKE TO FINANCE A STABLE
PORTION OF THE CEPS BUDGET BY REVENUE FROM MILITARY OPERATIONS
(STORAGE, MOVEMENTS, HANDLING) AND TO ADAPT THE MILITARY
TARIFFS ACCORDINGLY.

2. THEY RECOGNIZE THE NEED FOR NON-MILITARY TARIFFS TO COVER
THE IDENTIFIABLE COSTS OF THE MOVEMENTS CONCERNED. THEY WILL
MAKE A NEW EFFORT, WITH THE ASSISTANCE OF CEOA, TO DETERMINE
THE COSTS OF CIVIL MOVEMENTS. THEY WILL PREVENT ANY LOSS OF

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VALUE FOR CIVIL REVENUES CAUSED BY INFLATION, AND KEEP TARIFFS FINANCIALLY BENEFICIAL FOR THE CEPS. WHEN PROPOSING A NEW TARIFF, HOST NATIONS WILL EXPLAIN ITS ECONOMIC BACKGROUND AND CALCULATION.

3. SINCE MILITARY AND NON-MILITARY TARIFFS, INCLUDING MISCELLANEOUS REVENUES, IN 1976 COVERED SOME 67 PERCENT OF THE CEPS BUDGET, THE SAME PERCENTAGE OR TWO THIRDS OF THE BUDGET WILL IN FUTURE BE FINANCED FROM TARIFFS, INDICATING A MINIMUM.

4. IN ORDER TO COUNTERBALANCE THE INFLUENCE OF PARITY FLUCTUATIONS AMONG THE FOUR HOST COUNTRIES ON THE INCOME OF THE CEPS WHICH IS CALCULATED IN FRENCH FRANCS, THE EIGHT USER NATIONS AGREE TO REVISE THE VALUE OF THE CEPS UNIT ACCORDING TO CEOA'S PROPOSAL IN AC/120-D/981.

5. SINCE THE CEPS AS A WHOLE DOES NOT BRING ANY PROFIT FOR USER NATIONS BUT MUST, ON THE CONTRARY, BE SUPPORTED BY NATIONAL CONTRIBUTIONS TO THE YEARLY FINANCIAL SHORTFALL, NO HOST
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COUNTRY WILL CHARGE THE INTERNATIONAL CEPS BUDGET WITH TAXES ON EARNINGS FROM SPECIFIC CEPS OPERATIONS.

6. HOST NATIONS AGREE TO ELIMINATE ALL IDENTIFIABLE TVA TAXES FROM THE INTERNATIONAL CEPS BUDGET.

7. HOST NATIONS AGREE TO ELIMINATE PETROLEUM TAX FROM THE INTERNATIONAL CEPS BUDGET; THE USE OF DOMESTIC FUEL WILL BE AUTHORISED IN ALL DIVISIONS.

8. THE TRAPIL REMUNERATION FOR THE MANAGEMENT OF LAVERA-

STRASBOURG CIVIL MOVEMENTS REMAINS FIXED AT THE PRESENT LEVEL:
6 PERCENT OF THE NET REVENUE FROM CEPS AND FF 0.50, 0.75 OR 1.50
PCER CU.M(ACCORDING TO THE DISTANCE OF THE MOVEMENT) FROM OTHER
SOURCES.

9. THE OUTSTANDING AMOUNTS FOR ADMINISTRATIVE AND TECHNICAL
EXPENSES DUE TO TRAPIL OF SOME FF 2 MILLION WILL BE PAID TO
TRAPIL.

10. EXTERNAL AUDITING OF CEPS EXPENDITURE AND REVENUES IN
FRANCE WILL BE PERFORMED IN ACCORDANCE WITH THE FOLLOWING
AGREEMENT:

(1) THE EXTERNAL (NATO) AUDITOR RECEIVES THE AUDIT REPORT
OF THE INTERNAL AUDITOR AND IS INFORMED OF THE ACTION TAKEN BY
THE ADMINISTRATION CONCERNED. HE CAN MEET THE INTERNAL
CONTROLLER AND ASK FOR EXPLANATION IN DETAIL.

(2) THE EXTERNAL (NATO) AUDITOR MAY ASK THE INTERNAL AUDITOR
TO EXTEND THE AUDIT PROGRAMME TO A CERTAIN AREA.

(3) THE EXTERNAL AUDITOR CAN ASK THE NATIONAL AUTHORITIES
TO SHOW HIM SPECIFIC SUPPORTING DOCUMENTS AND VOUCHERS FOR
EXPENDITURES OR REVENUES.

(4) THE EXTERNAL AUDITOR MAY ACCOMPANY THE INTERNAL AUDITOR
TO VISIT A SITE OF CEPS INSTALLATIONS IN ORDER TO SEE THE
PHYSICAL PRESENCE OF ASSETS AND SPARES.

(5) THUS THE EXTERNAL AUDITOR IS ALLOWED TO CHECK AT
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RANDOM SUPPORTING DOCUMENTS AND THE PRESENCE OF ASSETS, WHILE
RELYING, FOR THE REST, ON THE AUDIT PERFORMED BY THE INTERNAL
AUDITOR ACCORDING TO A PROGRAMME ESTABLISHED IN CO-ORDINATION
WITH THE EXTERNAL AUDITOR.

11. IN THE FIELDS OF PERSONNEL AND GUARDING THE FOUR HOST
COUNTRIES ACCEPT THE CRITERIA PROPOSED BY THE RELEVANT CEPO
WORKING GROUPS AS THE MAXIMUM TO BE PUT DOWN TO THE
INTERNATIONAL CEPS BUDGET. MOREOVER THEY WILL REDUCE THE
ESTABLISHMENT (DELETION OF BLOCKED OR VACANT POSTS,
REPLACEMENT OF GUARDS BY REMOTE SUPERVISION) AND LIMIT THE
EMPLOYMENT OF NEW CEPS STAFFS IN DIVISIONS AND HEAD OFFICES
TO THE MAXIMUM EXTENT POSSIBLE.

12. NATIONAL SECURITY REGULATIONS FOR PETROLEUM PIPELINES AND
STORAGE ARE RECOGNIZED BY THE MEMBER COUNTRIES EVEN IF THEY
HAVE A FINANCIAL IMPACT ON THE CEPS BUDGET. HOST COUNTRIES
UNDERTAKE, HOWEVER, TO SHARE THE BURDEN BY CONTRIBUTING 50
PERCENT OF THE COSTS FROM THEIR NATIONAL BUDGETS. HOST COUNTRIES
AGREE NOT TO CHARGE THE CEPS BUDGET WITH ANY TYPE OF
EXPENDITURE THAT WAS COVERED UNTIL NOW BY NATIONAL BUDGETS.

13. THIS GENERAL COMPROMISE AGREEMENT ENTERS INTO FORCE ON
1ST JANUARY, 1977, AND COVERS ALL OUTSTANDING FINANCIAL
PROBLEMS AS FROM THAT DATE. END TEXT.STRAUSZ-HUPE

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